

(b) *Adjustment of payments to reflect number of Medicare enrollees*—(1) *General rule.* HCFA adjusts payments retroactively to take into account any difference between the actual number of Medicare enrollees and the number on which it based an advance monthly payment.

(2) *Special rules for certain enrollees.* (i) Subject to paragraph (b)(2)(ii) of this section, HCFA may make adjustments, for a period (not to exceed 90 days) that begins when a beneficiary elects a group health plan (as defined in § 411.101 of this chapter) offered by an M+C organization, and ends when the beneficiary is enrolled in an M+C plan offered by the M+C organization.

(ii) HCFA does not make an adjustment unless the beneficiary certifies that, at the time of enrollment under the M+C plan, he or she received from the organization the disclosure statement specified in § 422.111.

(c) *Payment areas*—(1) *General rule.* Except as provided in paragraph (e) of this section, the M+C payment area is a county or an equivalent geographic area specified by HCFA.

(2) *Special rule for ESRD enrollees.* For ESRD enrollees, the M+C payment area is a State or other geographic area specified by HCFA.

(d) *Terminology.* As used in paragraph (e) of this section, “metropolitan statistical area,” “consolidated metropolitan statistical area,” and “primary metropolitan statistical area” mean any areas so designated by the Secretary of Commerce.

(e) *Geographic adjustment of payment areas.* For contract years beginning after 1999—

(1) *State request.* A State’s chief executive may request, no later than February 1 of any year, a geographic adjustment of the State’s payment areas for the following calendar year. The chief executive may request any of the following adjustments to the payment area specified in paragraph (c)(1) of this section:

(i) A single Statewide M+C payment area.

(ii) A metropolitan-based system in which all nonmetropolitan areas within the State constitute a single payment area and any of the following

constitutes a separate M+C payment area:

(A) All portions of each single metropolitan statistical area within the State.

(B) All portions of each primary metropolitan statistical area within each consolidated metropolitan statistical area within the State.

(iii) A consolidation of noncontiguous counties.

(2) *HCFA response.* In response to the request, HCFA makes the payment adjustment requested by the chief executive.

(3) *Budget neutrality adjustment for geographically adjusted payment areas.* If HCFA adjusts a State’s payment areas in accordance with paragraph (e)(2) of this section, HCFA at that time, and each year thereafter, adjusts the capitation rates so that the aggregate Medicare payments do not exceed the aggregate Medicare payments that would have been made to all the State’s payments areas, absent the geographic adjustment.

(f) *Determination and applicability of payment rates.* (1) All payment rates are annual rates, determined and promulgated no later than March 1st, for the following calendar year.

(2) For purposes of paragraphs (b) and (c) of § 422.252, except as provided in § 422.254(e)(4), the “capitation payment rate for 1997” is the rate determined under section 1876(a)(1)(c) of the Act.

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**§ 422.252 Annual capitation rates.**

Subject to the adjustments specified in this subpart, the annual capitation rate for a particular payment area is equal to the largest of the following:

(a) *Blended capitation rate.* The blended capitation rate is the sum of—

(1) The area-specific percentage (specified in § 422.254(a)) for the year multiplied by the annual area-specific capitation rate for the payment area as determined under § 422.254(e) for the year, and

(2) The national percentage (specified in § 422.254(a)) for the year multiplied by the national input-price-adjusted capitation rate for the payment area as determined under § 422.254(g) for the year.

(3) Multiplied by the budget neutrality adjustment factor determined under § 422.254(d).

(b) *Minimum amount rate.* (1) For 1998—

(i) For the 50 States and the District of Columbia, the minimum amount rate is 12 times \$367.

(ii) For all other jurisdictions the minimum amount rate is the lesser of the rate described in (b)(1)(i) or 150 percent of the capitation payment rate for 1997.

(2) For each succeeding year, the minimum amount rate is the minimum amount rate for the preceding year, increased by the national per capita growth percentage (specified in § 422.254(b)) for the year.

(c) *Minimum percentage increase rate.* (1) For 1998, the minimum percentage increase rate is 102 percent of the annual capitation rate for 1997.

(2) For each succeeding year, the minimum percentage increase rate is 102 percent of the annual capitation rate for the preceding year.

#### § 422.254 Calculation and adjustment factors.

The following are the factors used in calculating the per capita payment rates:

(a) *Area-specific and national percentages.* For purposes of § 422.252(a)(1), the area-specific percentage and the national percentage, for each year, are as follows:

	Area-specific	National
For 1998 .....	90	10
For 1999 .....	82	18
For 2000 .....	74	26
For 2001 .....	66	34
For 2002 .....	58	42
For years after 2002 .....	50	50

(b) *National per capita growth percentage.* For purposes of § 422.252(a)(2),

(1) The national per capita growth percentage for a year is HCFA's estimate of the rate of growth in per capita expenditures, reduced by the percentage points specified in paragraph (b)(2) of this section for the year. HCFA may make separate estimates for aged enrollees, disabled enrollees, and enrollees who have ESRD.

(2) The percentage points that HCFA uses to reduce its estimates are as follows:

(i) For 1998, 0.8 percentage points.

(ii) For years 1999–2002, 0.5 percentage points.

(iii) For years after 2002, 0 percentage points.

(c) *Medical education payment adjustments.* For purposes of paragraph (e)(2) the medical education payment adjustments are amounts that HCFA estimates were payable to teaching hospitals during 1997 for—

(1) the indirect costs of medical education under section 1886(d)(5)(B) of the Act; and

(2) The direct costs of graduate medical education under section 1886(h) of the Act.

(d) *General budget neutrality factor.* For each year, HCFA applies a budget neutrality factor to the blended capitation rates under § 422.252(a) so that the estimated aggregate payments made under this part equal the estimated aggregate payments that would have been made if based entirely on area-specific capitation rates.

(e) *Annual Area-specific capitation rate* (1) *Basic rule.* Subject to the provisions of paragraphs (e)(2) and (e)(3) of this section, the annual area-specific capitation rate for a particular payment area is—

(i) For 1998, subject to paragraph (e)(4) of this section, the per capita rate determined for that area for 1997 under section 1876(a)(1)(c) of the Act, increased by the national per capita growth percentage for 1998; and

(ii) For a subsequent year, the area-specific capitation rate determined for the previous year, increased by the national per capita growth percentage for the year.

(2) *Exclusion of medical education costs.* In calculating the area-specific capitation rates, the following percentages of the amounts estimated by HCFA under § 422.254(c) as medical education payment adjustments to hospitals, are excluded:

For 1998 .....	20 percent.
For 1999 .....	40 percent.
For 2000 .....	60 percent.
For 2001 .....	80 percent.
For years after 2001 .....	100 percent.